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PRC STATE COUNCIL BULLETIN,

No. 10, 30 May 1984

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13 December 1984

CHINA REPORT

POLITICAL, SOCIOLOGICAL AND MILITARY AFFAIRS

PRC STATE COUNCIL BULLETIN, No. 10, 30 MAY 1984

Beijing PRC STATE COUNCIL BULLETIN in Chinese No 10, 30 May 1984

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Beijing PRC STATE COUNCIL BULLETIN in Chinese No 10, 30 May 84 p 314

[Text] To Standing Committee of NPC:

In order to prevent and deal with water pollution, to protect and improve the environment, and thus to safeguard the people's public health and the effective utilization of our water resources as well as to promote economic and social development, the Ministry of Urban and Rural Construction and Environmental Protection, and other ministries concerned have drafted the "PRC Water Pollution Prevention and Treatment Law (Draft)" after extensive investigation and study and after repeated discussions and revisions. This draft has been approved by the State Council after discussion. You are requested to deliberate on it.

Zhao Ziyang
Premier of State Council
22 September 1983

CSO: 4005/826

STATE COUNCIL DECISION ON ENVIRONMENTAL PROTECTION WORK (8 May 1984)

(Guo-fa [0948 4099] 1984 No 64)

Beijing PRC STATE COUNCIL BULLETIN in Chinese No 10, 30 May 84 pp 319-322

[Text] A basic national policy in China's socialist modernization drive is to protect and improve the living ecology and environment and prevent environmental pollution and destruction. In order to speed up overall expansion of socialist economic construction and to safeguard environmental protection and a coordinated development of economic construction in a bid to adapt our living environment to the national economic development and the improvement of the people's material and cultural standard as proposed at the 12th National Party Congress, the State Council has made the following decisions:

1. A committee on environmental protection is to be set up under the State Council. Its tasks are to study and approve environmental protection principles and policies, set forth planning requirements, and lead, organize and coordinate environmental protection work in the whole country. The committee's offices will be set up in the Ministry of Urban and Rural Construction and Environmental Protection.
2. The State Planning Commission, the State Economic Commission, and the State Science and Technology Commission will be responsible for doing a good job in comprehensively protecting and balancing the environment while drawing up plans for national economic and social development, promoting production and construction, and developing science and technology. Industry, communications, agriculture, forestry, fishery, oceanography, health, foreign trade, tourism and other departments concerned, as well as PLA units, will be responsible for doing a good job in preventing and controlling pollution and protecting the ecology of each department. All the aforesaid departments should assign a comrade to specially take charge of environmental protection work. They should also set up their own corresponding environmental protection organization.
3. The people's governments in all provinces, autonomous regions and municipalities, as well as in all cities and counties, must assign a comrade to specially take charge of environmental protection work. Provinces, cities and counties where industry is concentrated, environment is seriously polluted, or the ecology is damaged may set up an environmental protection administrative organ at the grade-one bureau level. People's governments in

districts, towns and townships should also assign full-time or part-time cadres to supervise the work.

The environmental protection organs of the people's governments at all levels are the coordinating and supervisory departments for environmental protection of the people's governments at all levels. In reforming the organizational structure, the localities should strengthen and perfect environmental protection organs in accordance with the spirit of "not crippling the coordinating and supervisory departments dealing with the economy and technology" as stated in the CPC's and the State Council's "Memo on Certain Questions Concerning the Reform of the Organizational Structure of the Party and Government Organizations in Provinces, Cities and Autonomous Regions" (Ref.: Zhong-fa [0022 4099] 1982 No 51). The localities which have already carried out their reform should make appropriate readjustment if what they have been doing is incompatible with the spirit of the "Memo" in a bid to establish a more perfect and reasonable structure performing the duties of organizing, coordinating, planning and supervising environmental protection work.

Large and medium enterprises, institutions and units concerned should also set up environmental protection organizations or assign special personnel to do the work in accordance with actual needs.

4. New, expansion and renovation projects (including minor ones), technical transformation projects, and all engineering and natural development projects which might cause environmental pollution or damage must strictly implement the measures to prevent and control pollution and ecological damage and comply with the regulation to simultaneously design, construct and put into production the principal parts of a project. The capital, materials and equipment required for installing environmental protection facilities should, just as those required for the principal parts of a project, be included in the investment plans for the fixed asset and should be carried out by planning commissions, economic commissions and responsible departments at all levels and should be supervised by environmental protection departments. Projects under construction or already put into operation without antipollution measures must, without exception, take remedial measures. The capital and materials required should be worked out by the original authorizing departments and units.

People's governments at all levels must strengthen the leadership over industrial enterprises run by towns, townships and neighborhoods, do a better job in rationally ascertaining production trends and arrangements and formulate appropriate regulations and systems in order to effectively prevent and control environmental pollution and damage.

It is necessary to earnestly protect the agricultural ecology and environment. Environmental protection departments at all levels should work together with departments concerned in popularizing ecological agriculture and preventing pollution in and damage to the agricultural environment.

5. The antipollution measures against old enterprises should be carried out in accordance with the State Council's "Certain Regulations Governing the

Combination of Technical Transformation and the Prevention of Industrial Pollution" (published in Issue No 3 of 1983 of BULLETIN; Guo-fa 1983 No 20). Environmental protection departments must take decisive action together with economic management departments to resolutely renovate old enterprises with poor economic results and serious pollution and, when necessary, shut down or suspend some of the enterprises.

In order to control pollution and initiate comprehensive utilization, projects of affiliated enterprises which are newly established or expanded, or independent workshops, sections or factories or shops which are undergoing an overall technical transformation should be included in the investment plans of the fixed asset according to the regulations. The capital and materials required should be taken care of by planning commissions at all levels within the investment plans.

The capital for general technical facilities for controlling pollution and initiating comprehensive utilization and that for antipollution facilities which are used simultaneously with the renovation and transformation of the original fixed asset should be obtained from the capital for renovation and transformation retained by the enterprises or centralized by higher level authorities. Every year, economic commissions at all levels, industry and transport departments and local departments and enterprises concerned should spend 7 percent of their capital for renovation and transformation on pollution control. A larger portion of money should be spent on pollution control if the pollution is found to be very serious and demands greater effort. Priority to use the capital for renovation and transformation retained by the enterprises should be given to pollution control. The production development funds of enterprises can also be used for pollution control. Specific ways of implementation should be separately laid down by the State Economic Commission, Ministry of Finance, and Ministry of Urban and Rural Construction and Environmental Protection.

The capital for pollution control of collective enterprises should be obtained from their "provident funds," "joint undertaking funds," or capital for renovation and transformation.

In adopting antipollution measures, the enterprises which are required to pay a pollutant discharge fee can apply, in accordance with regulations, to environmental protection departments and finance departments for environmental protection subvention, which normally will not exceed 80 percent of the pollutant discharge fee paid. The fee retained by local environmental protection departments should mainly be spent on local comprehensive pollution control, the purchase of equipment for environmental monitoring stations and business activities. It should not be spent on any aspects other than environmental protection. The fee should be deposited in bank accounts specially opened for such purpose. Its use should be supervised by the banks concerned. Antipollution projects should be included in local investment plans for the fixed asset or the plans for installing technical facilities. The supply of materials and facilities needed should be guaranteed.

6. It is necessary to adopt the policy of comprehensive utilization. Factories, mines and enterprises are exempted for 5 years from turning over to the state profits earned from products developed from comprehensive utilization to prevent and control pollution. They can retain the profits to continue comprehensive utilization to control pollution. This regulation will remain valid after the change from profit delivery to taxation has taken place.

Factories, mines and enterprises are exempted from construction taxes when they use self-collected funds and environmental protection subsidies to build antipollution projects or build and move to new facilities because of pollution.

Enterprises may apply, in accordance with regulations, for bank loans on favorable terms to fund pollution prevention and control or comprehensive utilization of the "three wastes" (waste gas, waste water and industrial waste).

7. The investment on capital construction needed by environmental protection departments for building environmental monitoring systems, institutes and schools, model engineering projects for environmental protection, and conducting scientific research projects should be respectively included in the central and local investment plans. The amount of the investment should be increased annually.

The fees for the three technical projects and environmental protection needed by environmental protection departments at all levels should be increased if required and if possible.

List of Members of the State Council Committee on Environmental Protection

Chairman: Li Peng [2621 7720]

Vice chairmen: Song Ping [1345 1627]

Li Ximing [2621 6932 6900] (Ministry of Urban and Rural
Construction and Environmental Protection)

Zhao Dongwan [6392 2639 1354] (State Science and Technology
Commission)

Zhao Weichen [6392 4850 5256] (State Economic Commission)

Members: Gu Ming [7357 2494] (Vice secretary general, State Council)
Chi Haibin [6688 3189 3453] (Ministry of Finance)
He Kang [0149 1660] (Ministry of Agriculture, Animal Husbandry and
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Yang Zhong [2799 6988] (Ministry of forestry)
Qu Geping [2575 2706 1627] (Ministry of Urban and Rural Construc-
tion and Environmental Protection)
Wan Jiabao [3306 1367 1405] (Ministry of Geology and Mineral
Resources)
Ma Jie [7456 2212] (State Science and Technology Commission for
National Defense)

Zhang Xiang [1728 4382] (General Logistics Department)
Guo Ziheng [6753 1311 1854] (Ministry of Public Health)
Li Guangxiang [2621 1684 4382] (Ministry of Public Security)
Zhaou Chuandian [0719 0278 0368] (Ministry of Metallurgical
Industry)
He Guangyuan [0149 0342 6678] (Ministry of Machine-building
Industry)
Zhou Ping [0719 1627] (Ministry of Nuclear Industry)
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Lin Yincai [2651 3009 2088] (Ministry of Chemical Industry)
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Electric Power)
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Luo Yuru [5012 6877 1172] (State Oceanography Bureau)

Office director: Qu Geping [2575 2706 1627] (concurrently)

CSO: 4005/826

STATE COUNCIL PROVISIONAL RULES FOR FURTHER EXPANSION OF DECISIONMAKING
POWER OF STATE-RUN INDUSTRIAL ENTERPRISES (10 May 1984)

(Guo-fa 1984 No 67)

Beijing PRC STATE COUNCIL BULLETIN in Chinese No 10, 30 May 84 pp 323-325

[Text] Following the perfection of the system of tax in lieu of profit, the distribution relationship between the state and the enterprise has been effectively solved. At present, in order to further arouse the enthusiasm of the enterprises, vitalize the economy and improve economic results, the following regulations have been formulated concerning certain problems on the further expansion of the decisionmaking power of enterprises.

1. Pertaining to production and operation planning. On the logical premise of affirming and insuring fulfillment of the state plan and agreements of supplying commodities to the state, the enterprises may themselves arrange for the extra production of products for state construction projects and to meet market needs. In carrying out the state plan and in the event of important changes in the condition of supply and demand, the enterprises are empowered to recommend readjustment plans to the departments in charge.

2. Pertaining to the marketing of products. With the exception of those products which the state has specially prohibited enterprises to market themselves, self-marketing by enterprises of the following products is permitted: products distributed to or retained by enterprises on a pro-rata basis; products in excess of the state plan; new products in trial production; and stock-piled products from warehouses.

As for these major products subject to unified distribution by the state, the following regulations governing self-marketing shall apply: steel products-- 2 percent of the portion specified for production under the state plan may be self-marketed; as for such products as pig iron, copper, aluminum, lead, zinc, tin, coal, cement, sulphuric acid, concentrated nitric acid, caustic soda, soda ash and rubber, the portion decreed for production under the state plan may not be self-marketed while the whole of the extra portion produced may be self-marketed; as for electrical machinery products, those produced from raw materials assigned and supplied by the state shall be subjected to disposal and distribution by the state while all others may be self-marketed by enterprises.

In the self-marketing of products, enterprises shall carry separate accounts, pay taxes according to regulations, strictly abide by the price policy of the state and observe financial discipline.

3. Pertaining to the prices of products. In the case of means of production for industry which may be self-marketed by enterprises and the extra portion of production after fulfillment of the state plan, enterprises are empowered to fix the prices subject to a fluctuation range between high and low prices of 20 percent, or the supply and demand parties concerned may fix the prices by negotiation within the abovementioned prescribed range. As for the regulated prices of the state (including the regulated floating prices of the state) shall be enforced but enterprises may cooperate with outside units using the extra state plan products which are available for self-marketing.

4. Pertaining to selective purchasing of materials. In the case of materials subject to unified distribution by the state, enterprises, at the time of placing orders, have the power of selecting the units supplying the goods. Departments in charge of placing orders for goods should pay due attention to the demands of the production enterprises and make balanced and rational arrangements in accordance with the source of the materials and the transportation conditions. Enterprises may sign agreements with the supplying units, making direct shipment of supplies and direct settlement of accounts.

5. Pertaining to use of funds. From among the self-retained portion of funds and in accordance with the ratio set by the department in charge, enterprises may separately set up production development funds, funds for trial production of new products, reserve funds, staff welfare funds and bonus and award funds. They are empowered to make use of these funds. The first three funds mentioned above may be combined with depreciation funds and funds for major overhauling for purposes of unified arrangement and disposal and rational usage.

As for the disposal of depreciation funds, commencing 1985, enterprises may retain 70 percent of the funds for their own use while the remaining 30 percent shall be subject to the control of the relevant departments and provinces, autonomous regions and directly subordinate municipalities. Regulations governing their concrete use will be made separately.

Based on the principle of self-accord and mutual benefit and by means of such forms as joint operation, unified operation and compensation trade, enterprises may employ production development funds temporarily not in use for purposes of making outside investments, thus enlivening the use of funds.

The enterprises are empowered to arrange for technical transformation projects. Concrete measures will be formulated by the provinces, autonomous regions and directly subordinate municipalities based on the spirit of the level-by-level downward release of the power of management and control.

6. Pertaining to the disposal of properties. Enterprises have the power of renting out and making compensatory transfer of excess or idle fixed assets. The renting out or transfer of high-grade, precision and top-notch equipment under the control of higher level departments in charge must be first

reported for approval by the relevant department in charge. Receipts from the rental and/or transfer must be used on technical transformation and equipment renovation.

7. Pertaining to establishment of organs. Within the limits of staff composition fixed by the relevant department in charge, enterprises have the power, in accordance with the special features of production and actual needs, to make their own decision on the establishment of organs and staffing arrangements. Relevant departments may, in accordance with the needs of the business and work, make demands on enterprises but no department is empowered to rigidly fix the organizational setup and the disposition ratio of the staff of enterprises.

8. Pertaining to personnel and labor management. Appointment of the plant head (manager) and party committee secretary is separately made by the respective higher level department in charge; the plant head will nominate the plant's administrative vice chief for approval and appointment by the department in charge; appointment and dismissal of middle-level administrative cadres of a plant will be made by the plant chief.

Enterprises may, in accordance with needs, select and appoint cadres from among the workers; during their period of employment these cadres will receive the same treatment as cadres of the same grade; they shall continue to be workers when not serving as cadres and shall not then receive the kind of treatment accorded to cadres.

The plant chief (manager) exercises the power of award and punishment of staff members and workers, including the power of promotion and granting award and that of dismissal and punishment.

Enterprises have the power, in accordance with production needs and the special features of the trade or industry and under the guidance of the Labor Department, to publicly recruit workers, selecting the best for appointment by means of tests and examination. They are empowered to resist any department or individual from rigidly placing personnel in their establishment in violation of the regulations of the state.

9. Pertaining to remuneration and bonuses. Under the logical premise of carrying out a national unified standard of salaries and wages, a unified classification of salaries and wages according to localities, and a definite system of allowances which must be on a nationally unified basis, the enterprises may, in accordance with their own special features, select their own form or system of salaries and wages.

The plant head has the power of granting promotion and pay increases to staff members and workers. The extent or volume of promotion and pay increase may be increased from the current 1 percent each year to 3 percent each year. These expenses of salaries and wages may be incorporated into the production cost.

Enterprises have the power of making their own disposal of the award and commendation funds set aside.

10. Pertaining to joint operation. Under the conditions of not changing the form of the ownership system of the enterprises, their subordinate relationship, and their financial structure, the enterprises may take part in or organize, joint operation of a transdepartment and translocality nature. They have the power to make their own selection of coworkers of superior quality, organize production cooperation and expand and/or disperse production of their products.

The various departments and localities are requested to earnestly carry out the above regulations. In the event of former regulations being in contradiction to the current regulations, the current regulations shall apply.

CSO: 4005/826

STATE COUNCIL CIRCULAR ON CIRCULATION OF MINISTRY OF FINANCE REPORT ON SITUATION OF GENERAL FINANCIAL INSPECTION, INTENSIFICATION OF FINANCIAL DISCIPLINE
(9 May 1984)

(Guo-fa 1984 No 66)

Beijing PRC STATE COUNCIL BULLETIN in Chinese No 10, 30 May 84 p 325

[Text] The Ministry of Finance report on the situation of the general financial inspection and intensification of financial discipline is herewith circulated to you. You are requested to strictly abide by the instructions in the report.

Recently, violations of financial regulations have become very serious. Not only have they been extended to a wide area and not only are they large in number but also various measures have been resorted to and they have been very repetitious despite frequent inspection and prosecution. This reflects an important aspect of irregularities within the party and in society that areas and departments must attend to. In accordance with the opinions presented by the Ministry of Finance in its report, all areas and departments must effectively and strictly enforce financial regulations in connection with their actual circumstances. All violations of financial regulations must be strictly dealt with according to the law of the state.

CSO: 4005/826

MINISTRY OF FINANCE REPORT ON SITUATION OF GENERAL FINANCIAL INSPECTION,
INTENSIFICATION OF FINANCIAL DISCIPLINE (20 April 1984)

Beijing PRC STATE COUNCIL BULLETIN in Chinese No 10, 30 May 84 pp 325-329

[Text] According to the decision of the State Council, since last October a general financial inspection on a nationwide scale has been carried out. At present, the inspection work is nearing completion. The following is a report on the general situation of the inspection and our views on the intensification of financial discipline.

I. Great Successes Achieved in This Financial Inspection

This financial inspection has been carried out under the conditions of the whole party seriously studying the resolution of the party Central Committee on party rectification and of the commencement of party rectification by the central authorities and the provinces, autonomous regions and directly subordinate municipalities. Party and government leadership in the various departments and localities has given it great attention. According to statistics compiled of 22 provinces, autonomous regions and directly subordinate municipalities including Henan, Hubei, Liaoning, Shandong and Guangdong, with the exception of units at grassroots level which, according to the request of a State Council circular, have carried out their own inspection, altogether 190,000 people were mobilized, forming over 26,800 inspection teams. Major inspection work was carried out on over one-third of the enterprises and business and administrative units. The situation reflects that in recent years, despite repeated emphasis laid by the party Central Committee and the State Council on the importance of observance of financial discipline and their organization of financial inspection several times, problems of violations in varying degrees of financial discipline have been found among many units. Some of the cases were extremely serious.

Under the leadership of the party and government at various levels, and thanks to the efforts made by the inspection teams at various levels and the extensive masses of staff members and workers, the financial inspection work has achieved great successes: First, in addition to the study of documents on party rectification, educational work on obeying law and discipline has been simultaneously carried out. Second, many financial irregularities have been discovered and the recovered funds contributed to the balancing of the state's revenue and expenditure in 1983. So far, 4.2 billion yuan of misappropriated funds have been recovered (comprising 4 billion yuan from enterprise units and

200 million yuan from administrative units), of which 1.5 billion yuan have already been turned over to the treasury. At present, the various localities and departments are conducting reinspection, and also collecting the misappropriated funds to be turned over to the treasury and it is expected that if only the work is continuously grasped it will be entirely possible to recover over 2 billion yuan of such funds. Third, many important clues helpful for the work of striking at serious economic crimes have been found. Fourth, the experiences gained from exposing the problems in financial management and in various enterprises' financial affairs are useful for financial reform.

II. Extremely Serious Problems of Violations of Financial Discipline at Present

Viewed as a whole, following several inspections made, the situation of violations of financial discipline has slightly turned for the better but the problem has not yet been basically solved. In certain areas and units, the problems concerning violations of financial regulations are even more serious than before. At present, the main and outstanding problems fall into the following five categories:

1. Recklessly inflating production cost and retaining profits. Of the total amount of 3.5 billion yuan of misappropriated funds on the part of enterprises in the localities, 1.2 billion yuan or 34 percent, belonged to this category. Since 1980, the Material Resources Bureau of the Neimenggu Autonomous Region, resorting to tactics such as falsifying expenses and concealing business receipts, detained and misappropriated financial revenue amounting to 27.25 million yuan. The great proportion of these funds had been spent lavishly and the leftover that could be returned to the treasury amounted to only 8 million yuan.
2. Defrauding and evading taxes. At present, the development of individual and collective economies has been very rapid and taxation, assessment and collection work have been unable to follow up, resulting in a general situation of defrauding and evading taxes. This time, Henan Province made an inspection of some 526,000 taxpaying units (comprising mainly units of individual and collective economies). Of them, the number found to have committed, in varying degrees, the defrauding and evading of taxes was over 468,000 units, or 89 percent. Among state-run enterprises and large collective enterprises the situation of defrauding and evading taxes was also rather general. This time, throughout the country state-run enterprises and large collective enterprises in the localities were found to have defrauded and evaded taxes amounting to 800 million yuan, or 23 percent of the total amount of misappropriated funds.
3. Giving out bonuses, allowances and subsidies in kind under all kinds of pretexts. As a result of the failure to thoroughly carry out the measures of control and certain other causes, the practices of indiscriminately giving out subsidies in kind not only have not been stopped but also have assumed an increasing number of pretexts or disguises and the amounts involved have increased in volume. Many units have resorted to various guises of providing the staff with high-grade durable consumer goods, competing with each other and aiming high in unison.

4. Appropriating public property and turning properties owned by the whole people to properties owned by the collectives. Certain units have violated state law, turning budgetary enterprises into extra-budgetary enterprises, turning profitable workshops of state-owned enterprises into collectively owned enterprises, converting funds belonging to the state to funds belonging to their own units and resorting to various ways and means to retain revenues meant for the state.

5. Abusing authority to seek personal gain and squandering state funds. The leadership and staff of certain units have made use of their authority and conditions of work, thinking out ways and means to take undue advantage of the state. Some have privately divided and taken over state property; some have squandered public funds to tour and visit places, or to give parties or make presents. Some have taken long rests for small ailments, obtaining "doctors' certificates" through the back door. Some have "borrowed" public funds on a long-term basis without repaying or even abusing their own authority by absolving themselves from repayment, and so on and so forth.

The abovementioned violations of discipline have yearly been investigated but yearly repeated. The public have described them as "usual ailments" or "habitual diseases." In addition, in the course of the inspection improper practices have been found in abundance such as delayed payment or nonpayment of taxes or profits, indiscriminate extra-plan capital construction, random price-raising, making indiscriminate purchases or effecting monopoly control of commodities, and so on. In particular, the localities have strongly objected to the practice of making indiscriminate apportionment of funds. Last year the offenders were caught and the offenses were curbed for a while but the problem has not been solved basically.

III. Certain Views Concerning Intensification of Financial Discipline

1. It is necessary to perform a good job from beginning to end in this general financial inspection. Although this inspection had a definite scale and started with some fanfare, yet its development has been uneven. Reflections from many localities have shown that the performance of central enterprises was not as good as that of local enterprises and that administrative and business units did not do as well as enterprises. In some localities, departments and units, the inspection was not carried out intensively or thoroughly enough but rather was perfunctorily conducted. Concerning their subordinate units, a few departments not only did not make stern or strict demands but also actually "protected their defects." We recommend that localities, departments and units which did not carry out the general inspection strictly enough should do the inspection work all over again. All important cases of financial irregularities that have been discovered must be tightly grasped, clearly inspected to the end, and there should be no time limit. If the enterprise and business units of central departments do not earnestly carry out their inspection in the localities, governments in the localities should organize the necessary forces to carry out the inspection and all irregularities discovered should be dealt with according to the relevant regulations.

2. All cases of financial irregularities that have been discovered must be handled seriously and "not a single one should be taken as a precedent." In the case of state-run enterprises, in addition to strictly following the instructions under STATE COUNCIL BULLETIN (Guo-fa 1982 No 72 "State Council Circular on the Approval and Circulation of a Ministry of Finance Report on the Situation of Making a Financial Inspection of Enterprises and Views Thereon From Now On," carried in STATE COUNCIL BULLETIN No 10, 1982), profits that have been retained under all sorts of names, such as profits made by jointly operated businesses, profits made from producing and selling goods not produced under the state plan, and profits made from trial production, must all be turned over to the state in full. Any misappropriation of state revenue, such as turning public funds into private funds, turning funds from budgetary enterprises to extra-budgetary enterprises and turning funds of the whole people to funds of collectives, must be corrected and all misappropriated funds must be recovered. Cases of giving out bonuses under all sorts of pretexts must be dealt with according to different circumstances, and these bonuses must be recovered in part or in full after taking the actual situation into consideration. The cost of various high-grade goods given to staff members free or at low prices must be recovered in one or several installments. From now on, giving out of bonuses must strictly follow the regulations mentioned in State Council Document Guo-fa 1984 No 55 ("State Council Circular Concerning Relevant Problems of Giving Out of Bonuses by State-run Enterprises," carried in STATE COUNCIL BULLETIN No 8, 1984). Certain regulations concerning the handling of financial problems have also been compiled. They will be circulated to you for execution.

3. Supervision over financial affairs must be more strictly enforced, and must also be regularized and institutionalized. Financial supervision must be based on law and regulations. Of the various kinds of financial statutes at present, some are still imperfect and need to be further studied and revised while others are not entirely suited to the new situation at present. Now, the "Regulations on Cost Control of State-run Enterprises" (carried in STATE COUNCIL BULLETIN No 6 1984) have been promulgated by the State Council. The various departments and localities should thoroughly carry them out. It is necessary to solve the problem of different departments adopting different policies or standards and the failure to strictly enforce the statutes. Leadership organs and leadership cadres at various levels must study and understand the law. They are responsible for upholding the solemnity of the law of our state and they must by no means substitute "authority" for "law." Only in so doing will it be possible that we have laws to base on, that laws must be obeyed, that laws must be strictly enforced and that all violations of laws must be prosecuted.

If there is nothing wrong with this report, we implore that it be approved and circulated to the various departments for observance and execution.

CSO: 4005/826

PROVISIONAL RULES OF BANK OF INDUSTRY AND COMMERCE OF CHINA ON CONTROL OF
LIQUID FUNDS IN STATE-RUN INDUSTRIAL AND COMMERCIAL ENTERPRISES (21 March 1984)

(Yin-gong Diao-zi [6892 1562 6148 1316] 1984 No 42)

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[Text] Section 1. General Principles

Article 1. These rules have been drawn up according to the State Council Document Guo-fa 1983 No 100, entitled "Circular on the Report of the People's Bank of China on Putting the State Enterprises' Circulating Funds Under the Centralized Management of the People's Bank" (published in issue No 15 of 1983 of the STATE COUNCIL BULLETIN).

Article 2. These rules shall apply to state-run industrial and commercial enterprises under the ministries in charge of industry, communications, rail transport, postal and telecommunications services, civil aviation, goods and materials management, commerce, cultural and educational undertakings, medical and health services, and so on (except for the Ministry of Nuclear Industry and the Ministry of Astronautics Industry; units under them are still taken care of by the Ministry of Finance).

Article 3. The Bank of Industry and Commerce of China is empowered by the People's Bank of China to carry out the following duties in managing the circulating funds in state-run industrial and commercial enterprises:

1. to formulate rules and regulations governing the management of circulating funds in state-run industrial and commercial enterprises;
2. to manage and regulate the circulating funds allocated by the state to the enterprises, to exercise supervision over those circulating funds replenished according to regulations by the enterprises themselves, and to check whether the enterprises' circulating funds are intact;
3. to determine the planned amounts of circulating funds used by the enterprises, to examine and approve plans and final accounts related to circulating funds for enterprises and departments in charge of enterprises, and, in conjunction with departments in charge of enterprises, to fulfill circulating funds turnover targets; and

4. to exercise supervision and inspection over the use of circulating funds by the enterprises, and to assess the results of use of funds.

Article 4. The departments in charge of enterprises and the enterprises themselves must satisfactorily manage and use circulating funds according to state policies and plans; in compliance with the principle of determining output and purchases according to the volume of sales, they must strengthen the planned management of production and circulation, satisfactorily achieve equilibrium between production, supply and marketing, establish and perfect systems of circulating funds management, implement systems of responsibility for the management of funds, assess the results of use of funds, and quicken the turnover of funds.

Section 2. Principles Governing the Management of Circulating Funds

Article 5. The circulating funds, fixed funds and special funds in enterprises must be managed by different authorities and used separately. Circulating funds can only be used to fulfill the needs of production and circulation.

Article 6. The enterprises and the departments in charge of enterprises must insure that circulating funds are kept intact. They must adhere to the integration of funds with goods and materials. They must accurately, opportunely and fully compute and report any changes in the amounts of circulating funds.

Article 7. Circulating funds must be subject to planned management. The enterprises must establish and perfect systems of responsibility for the management of funds and enhance the results of use of funds.

Article 8. In managing and using circulating funds, various departments and enterprises must observe the following regulations:

circulating funds must not be diverted to capital construction or to meeting other financial expenditures;

circulating funds must not be used to pay apportioned expenses and must not be reallocated or transferred by whatever reasons;

circulating funds must not be used without authorization for investment in fixed assets in other units or for participation in other units' capital-raising bids;

circulating funds must not be used to purchase treasury bills;

circulating funds must not be used as part of taxes and profits to be turned over to higher authorities;

circulating funds must not be used to make up for deficits or losses;

circulating funds must not be eroded by book entries of expenses representing costs which should be entered or losses and profits which should be written off;

circulating funds must not be canceled without authorization; lending and borrowing between enterprises and the accompanying taking of interest are prohibited;

violations of discipline governing the settling of accounts or deliberate postponement of repayment of loans are prohibited.

Violations of the regulations above must be straightened out within specified time limits, otherwise, the banks will apply credit sanctions.

Section 3. The Planned Management of Circulating Funds

Article 9. The enterprises and departments in charge of enterprises must, according to regulations, submit their own plans concerning circulating funds to the banks where they opened their accounts and to other banks at the same level. When a newly built or newly expanded enterprise is ready to go into operation, it must submit by itself plans concerning circulating funds needed for acquiring equipment and materials necessary for trial production, plans concerning circulating funds needed after it has formally gone into operation, and plans concerning the sources of these funds.

Article 10. According to regulations drawn up by the head office of the bank, the branches in various provinces, autonomous regions, and municipalities directly under the central government must regularly submit to the head office compiled annual plans concerning circulating funds for various departments in their own localities.

Article 11. After the annual plans of all enterprises in our country concerning the turnover of circulating funds have been approved by the state, these plans will be incorporated in the state plans and will be assigned as directive targets to various localities and departments for implementation.

Article 12. The annual circulating funds turnover plans for state-run industrial and commercial enterprises by the head office of the bank in conjunction with various departments in charge of enterprises in accordance with the annual circulating funds turnover plans assigned by the state.

In dealing with local state-run industrial and commercial enterprises, various provinces, autonomous regions, and municipalities directly under the central government, in conjunction with various responsible departments and in accordance with the annual circulating funds turnover plans assigned by the state, shall put forth their own annual circulating funds turnover plans for various localities and various departments, incorporate these plans into their own local economic development plans, and assign them through successive levels to the enterprises via the Bank of Industry and Commerce at various levels in conjunction with the departments in charge of enterprises.

Article 13. In accordance with the annual circulating funds turnover plans assigned by the higher levels and in light of the conditions of production and operation of the current year, the enterprises shall decide upon the annual planned amounts of circulating funds used or the quotas governing the

turnover and inventory of commodities, and report these figures to the banks where they opened their accounts for examination and finalization.

The enterprises engaged in industrial production, the goods and materials supply and marketing enterprises, and the wholesale and retail commercial enterprises at the third level, shall decide upon the annual planned amounts of circulating funds used in light of approved annual circulating funds turnover plans and the current year's proceeds from sales.

In accordance with annual purchase and marketing plans assigned by the higher authorities, the first and second level commercial wholesale enterprises shall determine annual quotas governing the turnover and inventory of the commodities they deal in (except for special categories of reserve commodities approved by the state).

Section 4. The Management of State Allocated Circulating Funds

Article 14. The state allocated circulating funds originally possessed by the enterprises shall continue to be used by the enterprises; they shall be managed by the banks and used at a cost, and a charge shall be levied on their use. Specific rules for implementation shall be governed by the unified regulations of the People's Bank of China.

Article 15. The state allocated circulating funds currently possessed by the enterprises may be appropriately transferred within certain limits. In the case of enterprises directly under the central government, this matter shall be determined by the responsible departments in conjunction with the head office of the bank. In the case of local enterprises, this shall be determined by the responsible departments of various provinces, autonomous regions, and municipalities directly under the central government, in conjunction with banks at the same level.

Article 16. Specially approved reserve funds or special categories of reserve funds originally allocated to the enterprises by the financial authorities shall continue to be retained by the enterprises; charges for using them will not be levied (but will be deducted when the turnover of funds of the enterprises is assessed). Such special funds must be used for the special purposes they are earmarked for. The banks must strengthen supervision over their use.

Section 5. The Sources and Replenishment of the Circulating Funds Acquired by Enterprises on Their Own

Article 17. An enterprise is an independently operated accounting unit. The circulating funds necessary for its production and circulation activities should come not only from state allocated circulating funds, but a definite proportion of its accumulation funds should be set aside to replenish those circulating funds acquired by the enterprises on their own. The sum of state allocated circulating funds and those circulating funds acquired by the enterprises on their own, as a proportion of the approved planned amount of circulating funds used, should not be less than 70 percent for industrial enterprises, 50 percent for goods and materials supply and marketing enterprises, and 60 percent for third level commercial wholesale enterprises and

retail shops. Any shortfalls shall be gradually made good by the enterprises by using production development funds.

Article 18. In principle, concerning the basic requirements for circulating funds needed by newly built or newly expanded enterprises, the authorities at the relevant levels which plan for the relevant capital construction investment shall be responsible for making arrangement and resolving the question. The following are rules governing specific methods:

A. At present, in view of the financial difficulties, the banks can grant temporary loans to provide the funds for purchasing materials, raw materials, and fuels necessary for trial production at newly built and newly expanded enterprises, the building or expansion of which is being financed by investment covered by state budget. The term of such a loan shall be determined on the basis of the planned duration of trial production. If such a loan is not repaid when it matures, the case will be treated as one of overdue loan repayment. Losses incurred in trial production must be made good by appropriations according to state budget. If the losses cannot be made good within 2 months, the case will be treated as one of diverting a loan to other uses.

Concerning the minimum circulating funds needed after those newly built or newly expanded enterprises, the building of which is being financed by investment according to the state budget, have formally gone into operation, those fixtures, molds and spare parts which are specified as preparatory materials for production in capital construction investment designs shall be converted into circulating funds; in addition, some supplementary circulating funds must be derived from part of the revenue earned during formal production or trial production. The shortfall shall initially be met by the banks' circulating fund loans, and must later be gradually made good by the enterprises' retained profits.

B. When those newly built or newly expanded enterprises, the building or expansion of which is being financed by funds raised by the localities, departments, or enterprises concerned on their own, go into operation, they must have raised a specified proportion of circulating funds on their own when they apply for bank loans. The banks will grant loans if this proportion is not lower than 30 percent of the planned amount of funds needed in the case of industrial enterprises, goods and materials supply and marketing enterprises, and retail shops, and not lower than 10 percent in the case of commercial wholesale enterprises.

C. For jointly financed and operated enterprises (including those financed and operated jointly by various units under ownership by the whole people, or by units under ownership by the whole people together with units under collective ownership), the circulating funds to be acquired by their own should be raised and replenished according to relevant state regulations by the various parties engaged in joint financing and operation.

Article 19. Corresponding to different circumstances, the following methods shall be adopted to replenish those circulating funds of existing state-run enterprises which are acquired on their own;

A. For those enterprises practicing systems of responsibility for task completion linked to profits or systems of contracts linked to profits, 10 to 30 percent of their production development funds shall be taken annually to replenish those circulating funds acquired on their own.

B. For those enterprises practicing the substitution of taxes for profits turned over to higher authorities, a specified proportion of those funds to be used at the enterprises' discretion shall be taken annually to replenish those circulating funds acquired on their own. In principle, at least 10 percent of the production development funds shall be taken annually to replenish those circulating funds acquired by the enterprises on their own.

C. For those small enterprises which pay income taxes according to the eight-grade progressive tax rule, and for enterprises such as those in the catering and service trades which pay taxes according to fixed percentages, the replenishment of their circulating funds can follow the rules applicable to collective enterprises.

Article 20. For enterprises which do not follow regulations to replenish those circulating funds acquired on their own though they are capable of doing so, and which consequently use an excessive amount of loans, the banks must charge an additional interest according to the terms for overdue loans and must urge these enterprises to replenish the funds according to regulations.

Article 21. The banks must not levy charges on the use of those circulating funds acquired by the enterprises on their own which are replenished by the enterprises themselves. No department may take or transfer these funds.

Section 6. The Handling of Losses in Circulating Funds

Article 22. The enterprises' liquid assets must be checked and verified annually. The losses in various categories of property and funds must be dealt with in the final accounts of the current year and must not be offset by using circulating funds.

Article 23. With effect as of 1 January 1981, losses in funds due to the discarding of the enterprises' overstocked goods, materials or commodities, or due to cuts in the prices of these stocks, or due to changes in systems, must be handled in relation to the enterprises' profits and losses accounts or relevant funds, in accordance with State Council Document Guo-fa 1982 No 146 (entitled "State Council Circular on the Report on Strengthening the Management of Circulating Funds in Enterprises," published in the STATE COUNCIL BULLETIN in issue No 21 of 1982). These losses must neither be canceled by using state allocated circulating funds or bank loans, nor allowed to remain as book entries.

Article 24. For those enterprises subject to the measures of closing, suspending production, merging, or shifting to other types of production, losses in their state allocated circulating funds shall be the responsibility of those departments in charge of them or those units with which they have been merged, and shall be dealt with according to State Council Document Guo-fa

1981 No 17 (entitled "State Council Resolution on Conscientiously Strengthening Credit Management and Rigorously Controlling the Issuing of Currency," published in the STATE COUNCIL BULLETIN issue No 2 of 1981) and according to the relevant regulations of the People's Bank, the Ministry of Finance, and so on.

Section 7. Bank Loans for Serving as Circulating Funds

Article 25. In granting loans for serving as circulating funds, the Bank of Industry and Commerce must be guided by guiding principles of relying mainly on the planned economy with regulation by market mechanism as a subsidiary measure, must follow the state's guiding principles and policies, must adhere to the principles of "treating different enterprises differently and selectively supporting superior ones" and "determining loans on the basis of sales volume," and must rigorously grasp the orientation of use and magnitude of loans. No unit or individual may force a bank to grant any loans.

Article 26. In granting loans, the banks shall charge differential interest rates according to the state's economic policies. Lower interest rates may be charged in dealing with those industries whose development should be encouraged, and higher interest rates must be charged in dealing with those industries whose development should be restricted according to state policies.

Article 27. Under the following conditions, the banks will not grant loans;

- A. if projects are blindly built in a number of locations, if duplicate construction is undertaken, or if the construction project in question has not been approved by the state and the province, autonomous region, or municipality directly under the central government;
- B. if an enterprise produces or purchases unmarketable, high-energy-consumption, poor quality, high-cost products, or products in excess supply whose output exceeds the planned quotas;
- C. if an enterprise incurs losses in producing products in excess of planned quantities or in producing unplanned products, or if an enterprise incurring operational losses fails to turn losses into profits;
- D. if an enterprise produces those categories of products which are to be phased out and fails to improve their products through the state has set time limits for doing so;
- E. if an enterprise continues to produce in the old way and does not comply with decisions made by higher authorities even though the state has determined that the enterprise be subjected to the measure of closing, suspension of production, merging, or shifting to other types of production.

Article 28. The granting of circulating fund loans by the banks must comply with credit policies and borrowing plans for enterprises, and must be compatible with the planned annual (or quarterly) amounts of circulating funds used, as approved by the banks, or compatible with the quotas governing the turnover and inventory of commodities; in the management of deposits and loans, there must be different accounts for these two things.

For those enterprises with a relatively long turnover cycle in production, the planned amount of circulating funds used can be ascertained on the basis of the ratio of funds used to the output value; the granting of circulating fund loans by the banks can be based on the planned annual (or quarterly) amount of circulating funds used, as approved by the banks, or the progress of production.

Article 29. The granting of circulating fund loans by the banks shall be based on checked and approved plans for circulating funds turnover, and the method of increasing the interest rate or the "floating interest rate" method shall be applicable to the enterprises.

A. The method of increasing the interest rate: a uniform interest rate shall apply to loans granted to enterprises within the limits of plans for circulating funds turnover; the banks must increase the interest rate by not more than 20 percent for additional loans used due to failure to fulfill plans for circulating funds turnover.

B. The method of floating interest rate: for those enterprises which over-fulfill plans for circulating funds turnover, the banks shall lower the interest rate on that amount of loans equivalent to the reduction in the circulating funds used, with the interest payment thus saved to be retained by the enterprises; for those enterprises which fail to fulfill such plans, the banks shall raise the interest rate on the additional loans used, with the extra interest payment deducted from the enterprises' retained profits; the increase or decrease in interest rates must not exceed 20 percent.

Article 30. Those special funds which the enterprises do not use for the time being, the cash deposits credited to the enterprises, or other categories of funds which are regarded as acquired by the enterprises on their own, must be incorporated into the quarterly borrowing plans of the enterprises if these funds play a part in the turnover of circulating funds.

Section 8. The Checking and Examination of Circulating Funds

Article 31. In accordance with the approved planned amount of circulating funds used and the requirement for the quickening of turnover, the enterprises should regularly check and analyze the source, use and turnover of circulating funds, and should submit quarterly reports on the findings of checking and analysis to the banks where they opened their accounts.

Article 32. The departments at various levels in charge of the enterprises must conduct quarterly and annual inspections and examinations of the implementation of circulating funds plans by the enterprises and the results of use of these funds. In the light of the different circumstances of various enterprises, these departments must adopt appropriate measures to urge the enterprises to strengthen the management of funds and to quicken the turnover of funds. Reports of inspections and analyses must be submitted to the banks at the same level.

Article 33. The Banks of Industry and Commerce at various levels must conduct quarterly and annual inspections and analyses of the implementation of

circulating funds plans by the state-run industrial and commercial enterprises in their own localities, in light of changes in production, marketing and the market. They must also opportunely submit reports to banks at higher levels and the local governments.

Article 34. The monthly, quarterly and annual financial income and expenditure plans and accounting documents of the enterprises (and also companies and responsible local bureaus) must be submitted to the banks where they opened their accounts. When the production, supply and marketing plans of the industrial enterprises, the purchase, marketing and inventory plans of commercial enterprises and goods and materials supply and marketing enterprises, as well as the statistical reports and tables reflecting how these plans are implemented, are submitted to the responsible departments at the higher levels, they must also be submitted to the banks where the enterprises opened their accounts. The summed up versions of these plans, reports and tables must be submitted by the responsible departments to the banks at the same levels.

In accordance with regulations drawn up by the head office of the bank, branches in various provinces, autonomous regions, and municipalities directly under the central government must regularly submit to higher levels statistical information about the enterprises in their localities with regard to funds and economic indicators.

Section 9. Supplementary Articles

Article 35. To strengthen the management of circulating funds and bank loans, the bank must gradually establish and perfect a system applicable to large and key enterprises whereby credit officers are stationed in factories (or centers); the enterprises concerned must provide necessary conditions to facilitate the work of these credit officers.

Article 36. These rules have been drawn up and shall be interpreted by the Bank of Industry and Commerce of China.

Article 37. These rules shall be effective as of the time they are received. In light of their own actual local conditions, various provinces, autonomous regions, and municipalities directly under the central government can follow the stipulations in these rules and formulate detailed rules for implementation, a copy of which must be sent to the head office for the record.

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